Financial Statements of

NOVA SCOTIA JOBS FUND

Period from December 21, 2011 to March 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Minister of Economic and Rural Development and Tourism, Province of Nova Scotia

We have audited the accompanying financial statements of Nova Scotia Jobs Fund which comprise the statement of financial position as at March 31, 2012, the statements of operations, changes in net financial assets, continuity of fund under the Nova Scotia Jobs Fund Act and continuity of fund under the Venture Corporations Act for the period from December 21, 2011 to March 31, 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Jobs Fund as at March 31, 2012, and its results of operations, net financial assets and continuity of funds for the period from December 21, 2011 to March 31, 2012 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants
July 3, 2012
Halifax, Canada

NOVA SCOTIA JOBS FUND

Statement of Financial Position
(in thousands of dollars)

March 31, 2012

		2012
Financial Assets		
Investments and development incentives:		
Loans (note 2)	$	188,812
Development incentives		20,752
Loans - Venture Corporations Act (note 3)		809
Royalty rights (note 4)		1,416
Shares (note 5)		41,412
		253,201
Provisions for concessionary assistance (note 6)		(9,804)
Provisions for development incentives		(20,752)
Allowance for doubtful accounts		(33,966)
		(64,522)
		188,679
Assistance authorized but unadvanced:		
Loans		323,985
Shares		-
Development incentives		32,725
		356,710
Due from Consolidated Fund of the Province of Nova Scotia:		
Guarantees (note 7)		65,700
Provisions for payment under guarantees		(5,275)
		60,425
Uncommitted balance of Fund, due from Consolidated Fund of the Province of Nova Scotia		83,284
Net financial assets, being accumulated surplus	$	689,098
Accumulated Surplus - Committed and Uncommitted		
Accumulated surplus is comprised of:		
Authorized, net of write offs:		
Nova Scotia Jobs Fund Act	$	754,486
Venture Corporations Act		4,408
		758,894
Provision for concessionary assistance, development incentives and possible losses on assistance (note 8)		(69,796)
Contingencies (note 9)		
	$	689,098

See accompanying notes to financial statements.

On behalf of the Fund:

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NOVA SCOTIA JOBS FUND

Statement of Operations
(in thousands of dollars)

Period from December 21, 2011 to March 31, 2012

		2012
Revenues:		
Interest	$	1,898
Guarantee fees		299
Shares		44
		2,241
Expenditures		-
Annual operating surplus	$	2,241

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Statement of Changes in Net Financial Assets
(in thousands of dollars)

Period from December 21, 2011 to March 31, 2012

		2012
Change in net financial assets:		
Increase in uncommitted balance of Fund	$	(299,531)
Increase in authorized amount per OIC 2012-107		304,000
Cancellation of loans		(26,340)
Principal repayments reinvested in the Fund		(39,362)
Authorizations during the year		365,065
Loans written off and development incentives earned		-
Change in provisions		(13,258)
Capitalized interest		112
Guarantee payments		53
Increase in net financial assets		290,739
Net financial assets, transferred from Industrial Expansion Fund		398,359
Net financial assets, end of period	$	689,098

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Statement of Continuity of Fund Under the Nova Scotia Jobs Fund Act
(in thousands of dollars)

Period from December 21, 2011 to March 31, 2012

		2012
Fund balance transferred from Industrial Expansion Fund	$	450,483
Increase in authorized amount per OIC 2012-107		304,000
Annual operating deficiency		2,241
Revenue recorded in Consolidated Fund of the Province of Nova Scotia		(2,241)
Net expenditures		-
Other activities within the Fund:		
Increase in authorized capital		-
Expiration of guarantees		-
Cancellation of loans		26,340
Decrease in uncommitted balance of Fund		299,531
Principal repayments reinvested in the Fund		39,362
		365,233
Authorizations during the year		(365,065)
Capitalized interest		(112)
Guarantee payments		(53)
		(365,230)
Fund balance, end of period	$	754,486

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Statement of Continuity of Fund Under the Venture Corporations Act
(in thousands of dollars)

Period from December 21, 2011 to March 31, 2012

		2012
Fund balance transferred from Industrial Expansion Fund	$	4,408
Deduct: Accounts written off		-
Fund balance, end of period	$	4,408
Comprising:		
Loans advanced	$	809
Uncommitted balance		3,599
	$	4,408

See accompanying notes to financial statements.

NOVA SCOTIA JOBS FUND

Notes to Financial Statements
(in thousands of dollars)

Period from December 21, 2011 to March 31, 2012

The Nova Scotia Jobs Fund (the "Fund"), established under the former Industrial Development Act, was continued as a special account in the office of the Deputy Minister of Finance in accordance with the Nova Scotia Jobs Fund Act pursuant to Order-in-Council 2011-440. The commencement date for the Nova Scotia Jobs Fund Act was December 21, 2011, at which time all assets and obligations of the Industrial Expansion Fund were transferred to the Fund. On December 20, 2011, the Industrial Expansion Fund ceased to exist. The Fund is used for the purposes of establishing, assisting, developing or expanding industries in the Province. All assistance provided by the Fund is required to be approved by Order-in-Council.

The administrative responsibility for the former Industrial Expansion Fund is assigned to Nova Scotia Business Inc., a corporation formed under the Nova Scotia Business Incorporated Act and his responsibility has been carried over to the Fund. The Fund's account and assistance management activities are performed by staff of the Department of Economic and Rural Development and Tourism.

1. Significant accounting policies:

These financial statements are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Canadian Institute of Chartered Accountants. These financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the Fund. The more significant polices are described below:

(a) Basis of accounting:

The Fund follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Loans receivable:

Loans receivable are recorded at amortized cost less allowances. An allowance is recorded when management considers it necessary to reduce the loan to its estimated recoverable amount.

(c) Royalties rights:

Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

1. Significant accounting policies (continued):

(d) Shares:

Equity investments with limited market information available are initially recorded at cost less allowances. This allowance or the difference between valuation and cost amount, reflects the risk associated with equity investments.

(e) Provision for concessionary assistance:

The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

(f) Allowance for doubtful accounts:

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

(g) Guarantees:

Guarantees, including utilized and unutilized portions, are recorded at cost.

(h) Revenues and administrative expenses:

Chapter 222 of the Revised Statutes of Nova Scotia contains the legislation relating to the Industrial Development Act. Clause 8, Administrative Expenses, states "The administration expenses of the Minister and of the Board shall be administration expenses of the Department of Economic and Rural Development and Tourism." Accordingly, administrative expenses of the Fund are included in the accounts of the Department of Economic and Rural Development and Tourism and are not reflected in the financial statements of the Fund.

Interest revenue and guarantee fees earned by the Fund are recorded directly in the accounts of the Consolidated Fund of the Province of Nova Scotia.

(i) Government transfers:

Government transfers are recognized in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

1. Significant accounting policies (continued):

(j) Statement of cash flows:

A statement of cash flows is not provided since the Fund does not maintain a cash account and disclosures in the statement of financial position, statement of operations, statement of net financial assets, and statement of continuity of the funds adequately represent the changes in Fund balances.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates included in the financial statements relate to the valuation of the financial assets and guarantees. Actual results could differ from these estimates.

(l) Early adoption of accounting standards :

The Fund has early adopted the following accounting standards on a prospective basis. These standards have been reflected prospectively in the financial statements for the current year:

1. Significant accounting policies (continued):

(i) PS 3450 - *Financial Instruments*:

The Fund has elected to early adopt Section PS 3450 - *Financial Instruments* ("Section PS 3450") effective for the period ended March 31, 2012. The mandatory application date of PS 3450 is for fiscal years beginning on or after April 1, 2012. Section PS 3450 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Financial instruments are assigned to one of two measurement categories: fair value, or cost or amortized cost. Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value. Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities are generally measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses. Budget-to-actual comparisons are not required within the statement of remeasurement gains and losses. When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category. New requirements clarify when financial liabilities are derecognized. The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Section PS 3450 outlines new disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

Upon adoption of this standard, the Fund has recorded its financial assets and financial liabilities at cost or amortized cost.

There is no other material impact on the financial statements as a result of adopting this standard.

1. Significant accounting policies (continued):

(ii) PS 2601 - *Foreign Currency Translation:*

The Fund has elected to early adopt Section PS 2601 – *Foreign Currency Translation* effective for the year ended March 31, 2012. The mandatory application date of Section 2601 is for fiscal years beginning on or after April 1, 2012. This Section revises and replaces Section PS 2600 - *Foreign Currency Translation*. Under Section PS 2601, the definition of currency risk is amended to conform to the definition in Section PS 3450 – Financial Instruments. The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed. At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date. The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued. Until the period of settlement, exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations. Hedge accounting and the presentation of items as synthetic instruments are removed.

There is no material impact on the financial statements a result of adopting this standard.

(m) Future changes in accounting policies:

The Public Sector Accounting Board has issued Section PS 3410 - *Government Transfers* effective for fiscal years beginning on or after April 1, 2012. This section revises and replaces existing Section PS 3410 of the same name and can be applied either retrospectively or prospectively. Section PS 3410 - *Government Transfers* establishes guidance on the recognition, presentation and disclosure of government transfers made to individuals, organizations and other governments. The new standard addresses this with more guidance specifically from the perspectives of both transferring governments and recipient governments. The impact of the adoption of the revised PS 3410 - *Government Transfers* is being evaluated by management and is not known or reasonably estimable at this time.

2. Loans receivable:

		2012
Performing loans	$	149,148
Performing loans with specific reserves		25,472
Impaired loans		14,192
	$	188,812

Interest charged on these loans ranges from nil% to 9%. Repayment terms are negotiated on specific loans and would normally not exceed 15 years. The level of security on loans is also negotiated between the Fund and the debtor based on the risk attached to the individual loan. Security can range from an unsecured position to a fully secured position.

Performing loans with specific reserves are loans whereby payments are being made on time. However, there exists a specific reserve against the loan receivable.

Impaired loans includes those loans whereby payments are in arrears by 3 months or more.

3. Venture Corporation Act:

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the former Industrial Development Act, and payments made pursuant to the Act shall be made out of the Fund.

During the period from December 21, 2011 to March 31, 2012, no payments were received on these loans.

3. Venture Corporation Act (continued):

		2012
Loans made to venture corporations	$	809
Less: allowance for doubtful accounts		809
	$	-

4. Royalty rights:

		2012
Royalty rights	$	1,416
Less:		
Allowance for doubtful accounts		1,416
	$	-

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of the companies.

5. Shares:

		2012
Preferred shares	$	18,741
Common shares		22,671
	$	41,412

Shares are recorded at cost. Any provision for the decline of fair market value below the cost of shares has been included in the allowance for doubtful accounts.

6. Provision for concessionary assistance:

The provision for concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity on the usual established commercial terms of the Fund.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the provision for concessionary assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the provision for concessionary assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans, shares and royalties is as follows:

	2012		
	Assistance outstanding	Provision for concessionary assistance	Net book value
Loans	$ 28,935	$ 5,504	$ 23,431
Shares	9,741	4,300	5,441
	$ 38,676	$ 9,804	$ 28,872

7. Guarantees:

	2012
Guarantees - in effect and utilized	$ 39,931
Guarantees - in effect but unutilized	25,769
	$ 65,700

8. Provision for concessionary assistance, development incentives and possible losses on assistance:

The following is a continuity of the provision:

		2012
Balance transferred from Industrial Expansion Fund	$	56,532
Add current period provision:		
Doubtful accounts		13,833
Development incentives		(569)
Less accounts written off		-
	$	69,796

9. Contingencies:

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements.

10. Financial instruments:

(a) Fair value:

Fair value measurements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

10. Financial instruments (continued):

There are no financial instruments recorded at fair value.

(b) Associated risks:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Fund's authorized net fund balance - committed and uncommitted is primarily exposed to credit, interest rate, market and liquidity risk.

(i) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. To mitigate this risk, the Fund regularly monitors entities to which financial assistance has been provided. In addition to its regular monitoring procedures, at period-end, management performed an analysis on a number of accounts in order to assess the Fund's total exposure to credit and other risks. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees.

As at period-end, the Fund had a significant concentration in its investment portfolio with respect to its five largest investees. At period-end, the concentration of investments advanced to the Fund's five largest investees was 71% of the carrying value of the investment portfolio.

At period-end, the Fund had a significant concentration in its investment portfolio with respect to timber-related industries. At period-end, the concentration of investments advanced to companies participating in timber-related industries was 66%.

(ii) Interest rate risk:

Interest rate risk is the risk that the market value of the Fund's investments and debt will fluctuate due to changes in market interest rates. It is management's opinion that the Fund is not exposed to significant interest rate risk arising from financial instruments.

10. Financial instruments (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through income generated from the loans receivable and guarantee fees, principal repayments received on the loans receivable and other funding received from the Province of Nova Scotia. In the normal course of business the Fund enters into contracts that give rise to commitments for future payments which may also impact the Fund's liquidity.

(iv) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments, its issuer or factors affecting all similar financial instruments traded in the market. At year end, there exists an exposure to market risk with respect to the Fund's shares that are not publicly traded (note 6).

11. Related party transactions:

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

In 2010, the former Industrial Expansion Fund authorized a loan of $1,000 to Harbourside Commercial Properties Limited, a crown corporation owned by the Province of Nova Scotia. The loan was made on commercial terms.

In 2008, the former Industrial Expansion Fund purchased $9,741 of preferred shares from Harbourside Commercial Properties Limited. The subscribed value of the shares is equal to the appraised value of the fixed assets of Harbourside Commercial Properties Limited. An allowance against the face value of the shares was recorded in 2008 for $4,300 because of uncertainty in the date and amount of the ultimate redemption of the preferred shares. There was no change in the provision in the current period.

In fiscal 2011, the Fund authorized financial assistance of $14,000 and $12,000 in 2012 to the Forestry Infrastructure Fund. This financial assistance is to be reimbursed by the Department of Natural Resources. As of March 31, 2012, $7,900 had been received.

11. Related party transactions (continued):

The Province of Nova Scotia pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Fund with no charge to the Fund.

The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.